

Report of the auditor-general to the Northern Cape provincial legislature and the council on Tsantsabane Local Municipality

Report on the financial statements

Introduction

1. I was engaged to audit the financial statements of the Tsantsabane Local Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2015, the statement of financial performance, statement of changes in net assets, and cash flow statement and the statement of comparison of budget with actual amounts for the year then ended, as well as the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA), and the Division of Revenue Act of South Africa, 2014 (Act No. 10 of 2014) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-general's responsibility

3. My responsibility is to express an opinion on the financial statements based on conducting the audit in accordance with International Standards on Auditing. Because of the matters described in the basis for disclaimer of opinion paragraphs, however, I was unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for disclaimer of opinion

Infrastructure assets

4. The municipality did not correctly account for assets in accordance with the requirements of the SA Standards of GRAP 17 *Property, plant and equipment*. The municipality recognised the electricity infrastructure assets that do not belong to the municipality. Consequently, infrastructure assets were overstated and accumulated surplus understated by R4 558 745; additionally the infrastructure assets were not properly valued in the prior year; resulted in the overstatement of infrastructure assets and understatement of accumulated surplus by R290 476 043. Furthermore the infrastructure work in progress was capitalised in the incorrect accounting period. I was unable to

determine the amount, as it was impracticable to do so. Additionally, there is a consequential impact of this on depreciation, accumulated depreciation and impairment. In addition I was unable to obtain sufficient appropriate audit for infrastructure assets values for roads, electricity and sewerage, additionally there was a differences between the asset register and the amount disclosed in the financial statements. I was unable to confirm the amount disclosed by alternative means. Consequently, I was unable to determine whether any adjustments relating to Infrastructure assets at R759 548 426 (2014:R759 548 426) in note 4 to the financial statements was necessary.

Expenditure

5. The municipality did not classify expenditure appropriately in accordance with the requirements of the SA Standards of GRAP 1 *Presentation of financial statements* as the inventory transactions was incorrectly classified as repairs and maintenance. Consequently, inventory was understated and repairs and maintenance overstated by R3 431 972. Furthermore the municipality did not have adequate systems to maintain records of expenditure for goods and services received, as there was expenditure transactions not recorded in the records of the municipality. This resulted in expenditure and payables from exchange transactions being understated by R8 469 468. In addition I was unable to obtain sufficient appropriate audit evidence for repairs and maintenance, general expenses and bulk purchases .I was unable to confirm the expenditure by alternative means. Consequently, I was unable to determine whether any further adjustment was necessary to expenditure of R102 576 110 in the financial statements.

Employee cost

6. I was unable to obtain sufficient appropriate audit evidence for employee cost as the municipality had an inadequate system of internal control to account for employee cost as the employee contracts were not provided. I was unable to confirm the amount disclosed by alternative means. Consequently, I was unable to determine whether any adjustments relating to employee cost stated at R53 668 169 in the financial statements was necessary.

Payables from exchange transactions

7. The municipality did not classify payables from exchange transactions in accordance with the requirements of the SA Standards of GRAP 1 *Presentation of financial statements* as the depreciation was incorrectly classified as payables from exchange transactions. Consequently depreciation was understated and payables from exchange transactions overstated by R7 531 325. Furthermore the municipality did not record all transactions relating to payables from exchange transactions. This resulted in payables from exchange transactions and expenditure being understated by R2 177 699. Furthermore the debit balance were incorrectly included as payables from exchange transactions, this resulted in the understatement of payables from exchange transactions and receivables from exchange transactions of R1 844 437 .Additionally, there is a consequential impact of this on depreciation, accumulated depreciation and impairment. In addition I was unable to obtain sufficient appropriate audit evidence for the amounts disclosed as payables from exchange transactions. I could not confirm payables from exchange transactions by alternative means. Consequently, I was unable to determine whether any further adjustment to payables from exchange transactions stated at R53 063 819 in the financial statements was necessary.

Land

8. I was unable to obtain sufficient appropriate audit evidence for land as the municipality had an inadequate system of internal control to account for land, as the ownership of the land cannot be verified. I was unable to confirm the amount disclosed by alternative means. Consequently, I was unable to determine whether any adjustments relating to land stated at R42 784 745 (R42 784 745) in note 4 to the financial statements was necessary.

Trade receivables from exchange transactions

9. I was unable to obtain sufficient appropriate audit evidence for receivables from exchange transactions as the municipality had an inadequate system of internal control to account for receivables from exchange transactions as there were unexplained differences between the amount in the financial statements and the amount in the general ledger. I was unable to confirm the amount disclosed by alternative means. Consequently, I was unable to determine whether any adjustments relating to trade receivables from exchange transactions stated at R32 185 819 (2014:R19 262 060) in the financial statements was necessary.

Fruitless and wasteful expenditure

10. I was unable to obtain sufficient appropriate audit evidence for fruitless and wasteful expenditure as the municipality could not provide all the required supporting documentation. I was unable to confirm the amount disclosed by alternative means. Consequently, I was unable to determine whether any adjustments relating to fruitless and wasteful expenditure at R21 224 305(2014: R45 284 951) in the financial statements was necessary.

Trade receivables from non-exchange transactions

11. During 2014, the municipality did not properly record receivables from non-exchange transaction in accordance with the requirements of the SA Standards of GRAP 1, *Presentation of financial statements*. The municipality did not have adequate systems to maintain records of receivables from non-exchange transactions as there were unexplained differences identified between the accounting records and the amounts recorded in the financial statements. Consequently, trade receivable from non-exchange transactions was overstated by R1 132 404 and revenue from non-exchange transactions overstated by R1 132 404 in the financial statements. Additionally, there is a consequential impact on the surplus for the period and the accumulated surplus. Furthermore I was unable to obtain sufficient appropriate audit evidence for receivables from non-exchange transactions as the municipality had an inadequate system of internal control to account for receivables from non-exchange transactions. I was unable to confirm the amount disclosed by alternative means. Consequently, I was unable to determine whether any adjustments relating to receivables from non-exchange transactions stated at R22 025 510 in note 10 to the financial statements was necessary.

Cash and cash equivalent

12. I was unable to obtain sufficient appropriate audit evidence for cash and cash equivalent as the municipality had an inadequate systems of internal control to account for cash and cash equivalent. I was unable to confirm the amount disclosed by alternative means. Consequently, I was unable to determine whether any adjustments relating to cash and cash equivalent stated at R10 372 442 in the financial statements was necessary. .

Revenue from Exchange Transactions

13. The municipality did not classify profit on sale of land correctly in accordance with the requirements of the SA Standards of GRAP 1 *Presentation of financial statements* as the profit on sale of land relating to the prior year was incorrectly classified as revenue in the current year. Consequently, revenue from exchange transactions and the receivables from exchange transactions were overstated by R 15 395 263.
14. The municipality did not measure revenue from exchange transactions in accordance with the requirements of the SA Standards of GRAP 9 *Revenue from exchange transactions* as the municipality did not have adequate systems to ensure that the service charges are measured at the correct tariffs. Consequently, revenue from exchange transactions and the receivables from exchange transactions were overstated by R12 016 135. In addition I was unable to obtain sufficient appropriate audit evidence for revenue from exchange transactions as the municipality did not have adequate systems of internal control in place for the recording of accrual gains, interest received, sundry income and journals. I could not confirm revenue from exchange transactions by alternative means. Consequently, I was unable to determine whether any adjustments to revenue from exchange transactions stated at R16 298 085 in the financial statements was necessary.

Provisions

15. The municipality did not classify employee benefits appropriately in accordance with the requirements of the SA Standards of GRAP 25 *Employee benefits* as the employee benefit was incorrectly classified as provisions. Consequently employee benefit was understated and provision overstated by R 2 369 000(2014:R2 243 000). I was unable to obtain sufficient appropriate audit evidence for provisions as the municipality did not have adequate systems to maintain records of provision for landfill sites. I was unable to confirm the amount disclosed by alternative means. Consequently, I was unable to determine whether any adjustments relating to provisions stated at R6 075 110 (2014:R5 937 998) in note 15 to the financial statements was necessary.

Contingent Liabilities

16. The municipality did not account for contingent liabilities in accordance with the requirements of the SA Standards of GRAP 1 *Presentation of financial statements*, as the municipality did not disclose the comparatives amounts, and furthermore not all contingent liabilities were disclosed. I was unable to determine the amount, as it was impracticable to do so. In addition was unable to obtain sufficient appropriate audit evidence for contingent liabilities as the municipality did not have adequate systems to maintain records of contingent liabilities. I was unable to confirm the amount disclosed by alternative means. Consequently, I was unable to determine whether any adjustments

relating to contingent liabilities stated at R8 000 000 (2014:R13 843 000) in the financial statements was necessary.

Depreciation

17. I was unable to obtain sufficient appropriate audit evidence for depreciation as the municipality did not have adequate systems to maintain records of depreciation. I was unable to confirm the amount disclosed by alternative means. Consequently, I was unable to determine whether any adjustments relating to depreciation stated at R7 604 212 in the financial statements was necessary.

Other property, plant and equipment

18. I was unable to obtain sufficient appropriate audit evidence for other property, plant and equipment additions as the municipality had an inadequate system of internal control to account for other property, plant and equipment additions. I was unable to confirm the amount disclosed by alternative means. Consequently, I was unable to determine whether any adjustments relating to other property, plant and equipment stated at R4 812 841 in note 4 to the financial statements was necessary.

Consumer debtors

19. The municipality did not account for trade from exchange transactions in accordance with the requirements of the SA Standards of GRAP 1 *Presentation of financial statements* as the municipality incorrectly classified trade receivables from exchange transactions as consumer debtors. This resulted in the understatement of trade receivables from exchange transactions and overstatement of consumer debtors by R4 130 875. In addition I was unable to obtain sufficient appropriate audit evidence for consumer debtors as the municipality did not provide information to support consumer debtors recorded. I was unable to confirm the amount disclosed by alternative means. Consequently, I was unable to determine whether any adjustments relating to consumer debtors stated at R4 130 875 (2014:R2 999 721) in the financial statements was necessary.

Investment Property

20. During 2014, the municipality did not classify investment property in accordance with the requirements of the SA Standards of GRAP 16 *Investment Property*; properties leased to municipal officials are classified as part of investment property. Consequently, investment property is overstated and property, plant and equipment understated by R4 020 088. Additionally, there was a resultant impact on the surplus for the period and accumulated surplus.
21. I was unable to obtain sufficient appropriate audit evidence for investment property as the municipality did not have adequate systems to maintain records of investment property as the investment property was not traced to the asset register. I was unable to confirm the investment property by alternative means. Consequently, I was unable to determine whether any further adjustment was necessary to investment property stated at R3 302 846 in the financial statements.

Unspent Conditional Grants

22. I was unable to obtain sufficient appropriate audit evidence for unspent conditional grants as the municipality did not have adequate systems to maintain records of unspent conditional grants as there were unexplained differences between the amount in the financial statements and the general ledger. I was unable to confirm the amount disclosed by alternative means. Consequently, I was unable to determine whether any adjustments relating to unspent conditional grants stated at R2 897 855 in the financial statements was necessary.

VAT payables

23. I was unable to obtain sufficient appropriate audit evidence for VAT payables as the municipality did not have adequate systems to maintain records of VAT payables. I was unable to confirm the amount disclosed by alternative means. Consequently, I was unable to determine whether any adjustments relating to VAT payables at R3 267 183 in the financial statements was necessary.

Buildings

24. The municipality did not correctly account for assets in accordance with GRAP 17, *Property, plant and equipment* as the municipality incorrectly capitalised work in progress as buildings, resulting in the work in progress understated and building overstated by R1 810 109. Additionally there is a consequential impact of this on depreciation, accumulated depreciation.

Irregular Expenditure

25. The MFMA requires the municipality to include particulars of irregular expenditure in the notes to the annual financial statements. The municipality incurred expenditure in contravention of the supply chain management requirements that were not included in irregular expenditure, which resulted in irregular expenditure being understated by R10 891 332 (2014: R13 819 613). In addition, the municipality did not have adequate systems to maintain complete records of irregular expenditure. Due to this lack of systems, I was not able to confirm the amount of irregular expenditure to be disclosed by alternative means. Consequently, I was unable to determine whether any further adjustment to irregular expenditure was necessary.

Commitments

26. I was unable to obtain sufficient appropriate audit evidence for commitments, as the municipality did not have adequate systems to maintain records of commitments. I was unable to confirm the amount disclosed by alternative means. Consequently I was not able to determine the full extent of the understatement in commitments as it was impracticable to do so.

Related Parties

27. The municipality did not disclose related parties in accordance with IPSAS 20 *Related Parties*. The relationship, transactions and balances with related parties were not disclosed, as the municipality did not maintain adequate records to facilitate the

disclosure of related parties, I was not able to determine the full extent of the understatement in related parties as it was impracticable to do so.

Material losses

28. The municipality did not disclose water and electricity distribution losses, as required by Section 125 of the MFMA, as the municipality does not have sufficient available information to facilitate the calculation of losses. I was not able to determine the full extent of the understatement material losses as it was impracticable to do so.

Financial instruments

29. The municipality did not disclose financial instruments in accordance with GRAP 104 Financial instruments. The information relating to the quantitative disclosure on the financial instrument was not disclosed, as the municipality did not maintain adequate records to facilitate the disclosure of financial instruments, I was not able to determine the full extent of the financial instrument disclosure as it was impracticable to do so.

Prior year error

30. The municipality did not disclose property plant and equipment, receivables from non-exchange, receivables from exchange transactions, consumer debtors, cash and cash equivalent, interest received, service charges, sundry income, property rates, depreciation and amortisation, finance cost and general expenses prior year errors, in accordance with GRAP 3, Accounting Policies, changes in accounting estimates and errors, as the municipality did not disclosed the nature and extent of the prior year error. I was not able to determine the full extent of the understatement in prior year error as it was impracticable to do so.

Going concern

31. The municipality did not disclose the going concern risk as required by SA GRAP 1, *Presentation of financial statements in the notes to the financial statements*. The difficulties being experienced by the municipality in recovering its consumer debtors, the potential negative effect of this tendency on the cash flows of the municipality and the inability to settle accounts payable within an acceptable period indicate that there is a risk that the municipality may be exposed to serious financial difficulties in terms of section 138 of the Municipal Finance Management Act. The financial statements did not disclose any details of the uncertainty as per note 39 to the financial statements and have been prepared on a going concern basis. The municipality's accounting records did not provide sufficient appropriate audit evidence that the municipality is able to continue as a going concern.

Disclaimer of opinion

32. Because of the significance of the matters described in the basis for disclaimer of opinion paragraphs, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on the financial statements.

Emphasis of matter

33. I draw attention to the matter below. My opinion is not modified in respect of this matter.

Material losses

34. As disclosed in note 28 to the financial statements, material losses to the amount of R11 357 221 were incurred as a result of impairment of trade debtors.

Additional matters

35. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Unaudited disclosure notes

36. In terms of section 125(2)(e) of the MFMA the municipality is required to disclose particulars of non-compliance with the MFMA. This disclosure requirement did not form part of the audit of the financial statements and accordingly I do not express an opinion thereon

Unaudited supplementary schedules

37. In terms of section 125(2) of the MFMA the municipality is required to disclose particulars of non-compliance with the MFMA. This disclosure requirement did not form part of the audit of the financial statements and accordingly I do not express an opinion thereon.

Report on other legal and regulatory requirements

38. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report findings on the reported performance information against predetermined objectives for selected development priorities presented in the annual performance report, compliance with legislation and internal control. The objective of my tests was to identify reportable findings as described under each subheading, but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

Predetermined objectives

39. The annual performance report presented for auditing did not include the actual performance of all the planned objectives, indicators and targets specified in the integrated development plan for the year under review as required by section 46 of the Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA). Consequently I am unable to report on the reliability of the performance information. I performed procedures to obtain evidence about the usefulness of the reported performance information for the following selected development priorities:

- Development priority 6: Physical Infrastructure and Energy Efficiency on pages x to x
- Development priority 7: Services and Customer Care on pages x to x

40. I evaluated the reported performance information against the overall criteria of usefulness.

41. I evaluated the usefulness of the reported performance information to determine whether it was presented in accordance with the National Treasury's annual reporting principles and whether the reported performance was consistent with the planned development priorities. I further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's *Framework for managing programme performance information* (FMPPI).

42. The material findings in respect of the selected development priorities are as follows:

Physical infrastructure and energy efficiency

Usefulness of reported performance information

Consistency of the indicators and targets

43. Section 41(c) of the Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA) requires the integrated development plan to form the basis for the annual report, therefore requiring consistency of objectives, indicators and targets between planning and reporting documents. A total of 38% of the reported indicators and targets were not consistent with those in the approved integrated development plan. This was due to lack of proper systems and processed.

Measurability of indicators and targets

44. The FMPPI requires the following:

- Performance targets must be specific in clearly identifying the nature and required level of performance. A total of 95% of the targets were not specific.
- Performance targets must be measurable. I could not measure the required performance for 95% of the targets.
- Performance indicators must be well defined by having clear data definitions so that data can be collected consistently and is easy to understand and use. A total of 95% of the indicators were not well defined.
- Performance indicators must be verifiable, meaning that it must be possible to validate the processes and systems that produced the indicator. A total of 100% of the indicators were not verifiable.

This was because management did not adhere to the requirements of the FMPPI due to a lack of proper systems and processes.

Services and Customer Care

Usefulness of reported performance information

Consistency of the indicators and targets

45. Section 41(c) of the MSA requires the integrated development plan to form the basis for the annual report, therefore requiring consistency of objectives, indicators and targets between planning and reporting documents. A total of 92% of the reported indicators and targets were not consistent with those in the approved integrated development plan. This was due to lack of proper systems and processes.

Measurability of indicators and targets

46. The FMPPI requires the following:

- Performance targets must be specific in clearly identifying the nature and required level of performance. A total of 92% of the targets were not specific.
- Performance targets must be measurable. I could not measure the required performance for 69% of the targets.
- The period or deadline for delivery of targets must be specified. A total of 69% of the targets were not time bound.
- Performance indicators must be well defined by having clear data definitions so that data can be collected consistently and is easy to understand and use. A total of 92% of the indicators were not well defined.
- Performance indicators must be verifiable, meaning that it must be possible to validate the processes and systems that produced the indicator. A total of 100% of the indicators were not verifiable.

This was because management did not adhere to the requirements of the FMPPI due to a lack of proper systems and processes.

Compliance with legislation

47. I performed procedures to obtain evidence that the municipality had complied with applicable legislation regarding financial matters, financial management and other related matters. My material findings on compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA, are as follows:

Strategic planning and performance management

48. The KPIs set by the municipality did not include indicators on percentage of households with access to basic level of water, sanitation, electricity and solid waste removal were not set by the municipality as required by section 43(2) of the MSA and the Municipal planning and performance management regulation 10(a).

49. The annual performance report for the year under review did not include

- A comparison of the performance with set targets and comparison with the previous financial year and
- Measures taken to improve performance as required by section 46 (1) (a) of the MSA.
- There are no actual target performances on annual performance report

Financial statements, performance and annual reports

50. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements of non-current assets, current assets, liabilities, revenue, expenditure and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected and the supporting records were provided subsequently, but the uncorrected material misstatements and supporting records that could not be provided resulted in the financial statements receiving a disclaimer audit opinion

Audit committees

51. The audit committee did not advise the council and accounting officer on matters relating to internal financial control and internal audits ,risk management , accounting policies , effective governance , performance management , performance evaluation as required by section 166(2)(a) of the MFMA.
52. The audit committee did not advise the accounting officer on matters relating to the adequacy, reliability and accuracy of financial reporting and information, as required by section 166(2)(a)(iv) of the MFMA.
53. The audit committee did not review the annual financial statements to provide the council with an authoritative and credible view of the financial position of the entity, its efficiency and effectiveness and its overall level of compliance with legislation, as required by section 166(2)(b) of the MFMA.
54. The audit committee did not respond to the council on the issues raised in the audit reports of the Auditor-General, as required by section 166(2)(c) of the MFMA.
55. The audit committee did not review the quarterly internal audit reports on performance measurement, as required by Municipal planning and performance management regulation 14(4)(a)(i).
56. The audit committee did not meet at least four times a year, as required by section 166(4)(b) of the MFMA.
57. The audit committee did not submit, at least twice during the financial year, an audit report on the review of the performance management system to the council, as required by Municipal planning and performance management regulation 14(4)(a)(iii).

Internal audit

58. The internal audit unit did not function as required by section 165(2) of the MFMA, in that:
- It did not advise the accounting officer and report to the audit committee on matters relating to internal audit, internal controls, accounting procedures and practices, risk and risk management, loss control.
59. The internal audit unit did not advise the accounting officer and report to the audit committee on matters relating to compliance with the MFMA, the DoRA and other applicable legislation, as required by section 165(2)(b)(vii) of the MFMA.

Procurement and contract management

60. Sufficient appropriate audit evidence could not be obtained that all contracts were awarded in accordance with the legislative requirements and a procurement process which is fair, equitable, transparent and competitive, as the information was not provided.

61. Goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations as required by SCM regulation 17(a) & (c).
62. Goods and services with a transaction value of more than R 200 000 or long-term contracts were not procured through a competitive bidding process as required by SCM regulation 19(a).
63. Contracts were awarded to bidders based on points given for criteria that differed from those stipulated in the original invitation for bidding, in contravention of SCM Regulations 21(b) and 28(1)(a) and the Preferential Procurement Regulations.
64. Quotations were awarded to bidders who did not submit a declaration on whether they are employed by the state or connected to any person employed by the state, as required by SCM regulation 13(c).
65. The performance of contractors or providers was not monitored on a monthly basis, as required by section 116(2)(b) of the MFMA.
66. The contract performance measures and the methods whereby they are monitored are not sufficient to ensure effective contract management, as required by MFMA section 116(2)(c).
67. The winning provider did not submit a tax clearance certificate from SARS certifying the tax affairs of that person to be in order or that suitable arrangements had been made with SARS. Alternatively the municipality did not obtain the tax clearance from SARS, as required by SCM regulation 43.

Human resource management and compensation

68. Job descriptions were not established for all posts in which appointments were made in the current year, in contravention of section 66(1)(b) of MSA.

Expenditure management

69. Money owed by the municipality was not always paid within 30 days as required by section 65(2)(e) of the MFMA.
70. Reasonable steps were not taken to prevent unauthorised expenditure, irregular expenditure, fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA.

Conditional grants received

71. The municipality did not evaluate its performance in respect of programmes or functions funded by the Municipal Systems Improvement Grant allocation, as required by section 12(5) of the DoRA.

Revenue management

72. A credit control and debt collection policy was not fully implemented, as required by section 96(b) of the MSA and section 62(1)(f)(iii) of MFMA.
73. An adequate management, accounting and information system which accounts for revenue and receipts of revenue was not in place, as required by section 64(2)(e) of the MFMA.

74. An effective system of internal control for revenue was not in place, as required by section 64(2)(f) of the MFMA.

Asset and liability management

75. An adequate management, accounting and information system which accounts for assets was not in place, as required by section 63(2)(a) of the MFMA.
76. An effective system of internal control for assets was not in place, as required by section 63(2)(c) of the MFMA.

Consequence management

77. Unauthorised, Irregular, Fruitless and wasteful expenditure incurred by the was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(a)(ii) of the MFMA.

Internal control

78. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with legislation. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for disclaimer opinion, the findings on the annual performance report and the findings on compliance with legislation included in this report.

Leadership

79. The accounting officers did not evaluate whether management had implemented effective internal controls by gaining an understanding of how senior management members had met their responsibilities in terms of ensuring proper records management, maintaining an asset register and preparing the annual financial statements.
80. The accounting officers and senior management did not take timeous and adequate action to address weaknesses in the finance and supply chain management directorate, which resulted in non-compliance with applicable legislation and gave rise to unauthorised, fruitless and wasteful and irregular expenditure.
81. The lack of decisive action to mitigate emerging risks, implement timely corrective measures and address non-performance was evident by the failure of management to adequately address the external audit findings in a timely manner. The municipality failed to properly analyse the control weaknesses and implement appropriate follow-up actions that adequately addressed the root cause. This resulted in the audit findings in the prior year report being recurring in the current year.
82. The accounting officers and senior management failed to implement adequate controls to ensure compliance with laws, regulations and internally designed policies and procedures. As a result, significant non-compliance issues were noted.

Financial and performance management

83. Inadequate filing procedures at the municipality resulted in limitations of scope during the previous year's audits.

84. The financial statements were not properly reviewed for completeness and accuracy prior to submission for auditing. This resulted in many findings relating to incorrect disclosure.
85. The municipality did not have the capacity to address backlog issues and financial system problems, resulting in the need to appoint consultants. Consultants assisted with the preparation of an asset register and annual financial statements but there still material misstatement in the annual financial statements.
86. Finance staff had an insufficient understanding of the accounting framework. This contributed towards the numerous qualifications in the financial statements of the municipality.
87. Regular, accurate and complete financial reports were not compiled and reviewed by the finance unit of the municipality that were supported and evidenced by reliable information.

Governance

88. The annual financial statements contained numerous inaccuracies, which are attributable to weaknesses in the design and implementation of internal control in respect of financial management and financial reporting, and weaknesses in the information systems.
89. Management did not implement appropriate risk management activities to ensure that regular risk assessments, including consideration of IT risks and fraud prevention, are conducted and that a risk strategy to address the risks is developed and monitored.
90. Although the municipality had an internal audit division, it was not adequately resourced and functioning to identify internal control deficiencies and provide recommendations.
91. An audit committee and performance audit committee was not effective in the financial year even though it was appointed in the prior year.

Auditor-General

Kimberley

30 November 2015



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence